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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 000959

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SUBJECT: KMT: KISSING ITS ASSETS GOODBYE

Classified By: AIT Deputy Director David J. Keegan, Reason(s): 1.4 (B/D).

11. (C) Summary: The Kuomintang (KMT) is busy selling off the assets it acquired while in power to keep the Democratic Progressive Party (DPP) from flogging the issue in upcoming elections. With operating costs of over NT\$150 million (US\$4.7 million) per month, the party also has practical reasons to liquidate assets and reduce staffing overhead. KMT party officials tell AIT the DPP government has tried to dissuade potential buyers by sending them letters suggesting the proposed sales are improper and warning of possible consequences. For this reason, the KMT maintains tight secrecy until a deal is completed, despite its claimed desire for greater transparency. End Summary.

12. (C) One of the KMT's reforms under Chairman Ma Ying-jeou has been selling off the newspapers, television and radio stations, investment companies, and commercial real estate properties that it acquired during its 55 years as Taiwan's ruling party. The reason for this is two-fold: First, the DPP has for years accused the KMT of having used its political position to enrich itself and its members, with some success. Last October, to stir up Pan-Green support before the December 2005 island-wide local elections, the DPP submitted a draft "Party Assets Statute" to the Legislative Yuan (LY) to force the KMT to divest itself of its "illegally obtained assets." KMT Central Committee Deputy Secretary Chang Che-shen, the person in charge of liquidating the KMT's assets, told AIT that Chairman Ma Ying-jeou considers the "illicit assets" question to be the party's greatest Achilles' heel, and has ordered Chang to "get rid of it all" before the presidential election in 2008. Even the KMT's Pan-Blue ally uses the issue as leverage; the People First Party (PFP) has thus far helped the KMT keep the Party Assets Statute bill bottled up in the LY procedural committee, but has threatened to allow the bill to go to the full LY if the KMT supports the Defense Special Budget weapons procurement.

13. (C) Second, Chang and others tell AIT the KMT is in a precarious financial position. Chang explained that the KMT is unique in that it is the only "government" that has had to transform itself into a "regular" political party. While in power, the KMT obligated itself to pay pensions to the thousands of party workers who staffed its government, nearly 3,000 of whom still survive. Now that it is "just" a party, the KMT no longer has access to government resources to pay

those pensions, but remains legally obligated to the tune of NT\$50 million (US\$1.6 million) per month. With an additional NT\$100 million (US\$3.2 million) per month in salary, rent, and other obligations, said Chang, the party is barely able to make ends meet, and has had to mortgage many of its assets to do so. Amid accusations that the KMT should be flush with cash from the recent sale of three commercial real estate properties and three media companies, Wang Hai-ching, president of the KMT's Central Investment Holding Corporation, announced in late February that although the party grossed NT\$8.8 billion (US\$284 million) from the sales, it netted only NT\$5 billion, after paying NT\$2.8 billion (US\$90 million) to satisfy capital gains taxes and loan balances associated with the deal. The NT\$5 billion (US\$161 million) balance was used to fund pensions for employees phased out by the sales, to handle KMT operating expenses, and to liquidate the debt of the KMT-owned Huahsia Investment Holding Company, to ready it for sale.

¶4. (U) The KMT's most valuable remaining asset (and its biggest political albatross) is the party headquarters building, which is located directly across from the Presidential Palace. For the DPP, the massive 12-story marble-covered edifice is the embodiment of KMT corruption and excess. It sits in an area zoned for cultural and educational purposes, but, according to Chang, can also be used for public service or banking and finance purposes. KMT diehards vocally protest the sale of the building, which they see as the "spiritual pillar of the party." After two presidential defeats and burgeoning financial problems, says Ma, it is no longer feasible or appropriate for the party to stay there. Taiwan press reported March 22 the possible sale of the headquarters building to Taiwan shipping conglomerate Evergreen Corporation, for roughly NT\$3 billion (US\$100

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million). Evergreen Director Chang Yung-fa told the press the company intends to use the property for cultural and educational purposes. KMT Central Committee Deputy Secretary Chang Che-shen declined to discuss the details of the deal.

¶5. (C) Chang told AIT the KMT understands the importance of openness and transparency in its business dealings, but cannot make public any details of potential sales for fear of DPP government interference. Chang said that during negotiations for the sale of the Huahsia Investment Group (which included Central Motion Pictures Corporation, the Broadcasting Corporation of China, and China Television Company), the Government Information Office (GIO) sent several memoranda to potential buyer China Times Group, warning of possible property disputes and potentially adverse legal consequences. The Finance Ministry also launched investigations into the personal finances of several China Times executives, ostensibly to insure no PRC funds would be involved in the transaction, and to rule out prior tax evasion violations.

¶6. (C) Under Ma's leadership, the KMT has reduced its staffing numbers considerably. The 3,500 full-time workers employed by the party six years ago have been reduced in recent months to 900, some 200 of which shall retire in the next few years. Chang said the goal is to retain a permanent workforce of 700 (still twice the DPP's 300 island-wide), supplementing permanent staff with volunteers during campaign and election periods.

¶7. (C) Comment: Five decades of KMT one-party rule coupled with years of DPP accusations have left the public suspicious that, despite its claims of penury, the KMT is sitting on a mountain of undisclosed assets. Publicly selling off assets of questionable provenance, especially the ostentatious Party Headquarters building, may help the KMT improve its cash flow, but it won't stop the DPP from exploiting the "illicit assets" issue in future elections. The KMT is stuck trying to prove a negative -- that they have no illicit assets left -- and the DPP knows the KMT can never win that game. The

KMT can only hope that Ma Ying-jeou's image as a clean politician will persuade voters to accept his assurances that the KMT has changed.

YOUNG